

## Appendix XI Due Diligence Guide

### Due Diligence for Private Enterprise

Listed below are the four essential areas for investigation — corporate image, social responsibility, environmental accountability and financial soundness — that comprise the minimum requirements for responsible due diligence. Since due diligence is such a crucial part of the partnering process, serious attention must be given to the topic before embarking on a strategic alliance. Therefore and where possible, it is recommended that a more comprehensive due diligence investigation be undertaken to enable the Agency to make the right decision on whether to partner with a particular firm. The GDA Secretariat can assist Agency operating units to conduct due diligence using a database developed and maintained by Calvert Social Research also known as ICIT.

Remember, though, that it may not be necessary to investigate every possible avenue of consideration. For most transactions you might consider, it would be too costly and too time consuming. Particularly for small alliances, too much due diligence can kill the transaction. The guide is meant as a menu of items to choose from. Use the menu to select what you want to investigate and what you will overlook. Make conscious and informed—not random—decisions of the possible lines of investigation. A way to do this is to develop a due diligence strategy considering the following factors:

1. What's important to the Agency? What isn't?
2. Which problems will be costly? Which ones will be minor?
3. Where are you likely to find problems? Where are you unlikely to find problems?
4. What is the type of transaction you are expecting? How large or small is the transaction? How complex? What will the investigation cost in time and in money?
5. What is the risk to the Agency if the unexpected causes the transaction to go bad?
6. How much time do you have? What do you have to lose by delay? What does the potential partner have to lose? How badly does the Agency need the alliance? How badly do the potential partners?

#### Practical tools for obtaining due diligence information

Note first that the GDA Secretariat subscribes to the *Inter-Agency Corporate Information Tool*, a database developed by the World Bank and UN agencies that already contains extensive reviews for thousands of companies. It is managed by Calvert, one of the pioneers of socially responsible investing. If a particular company is not already in their database, they will conduct a new search for an additional modest fee. Contact the GDA Secretariat if you wish to make use of this important service.

In addition, there are a number of business-oriented resources available that can help you find answers to the questions below. [Dun & Bradstreet](#) reports primarily on publicly-traded companies, while coverage of private companies may be limited. The [SEC](#) provides basic corporate and financial information on US companies with more than \$10 million in assets and at least 500 shareholders. A [Lexis-Nexis](#) search can be used for gathering news stories about a company within a specific timeframe. This may be a good place to start when researching private companies.

To order a report by Dun & Bradstreet or conduct a Lexis-Nexis search, contact the librarian at USAID's Center for Development Information and Evaluation (CDIE).

## Tools for Alliance Builders

A number of “watchdog” organizations also provide information on companies. However, be aware that such information may reflect a particular point of view and require appropriate filtering. One group, [CorpWatch](#), provides hyperlinks to other sites in a step-by-step guide to researching backgrounds of companies. Other groups include [Corporate Watch](#) (the UK’s version of Corpwatch), the [Public Information Network](#), [Public Citizen](#), [Corporate Governance](#), [CSRWire](#), [CSR Forum](#), and [Business Ethics](#).

In addition, there are a number of other organizations that charge a subscription fee for information that the GDA Secretariat or CDIE may be able to access.

Essential areas of investigation:

A. Corporate image

1. What is the company’s public image? Have there been any tensions between the community and the company?
2. Has there been anything in the media that would reflect negatively upon the company? If so, how has the company dealt with significant negative publicity?
3. Are there any pending lawsuits against the company?
4. Is the company looking *solely* for PR opportunities by aligning itself with USAID?
5. Is the company only or primarily looking for procurement opportunities or money from USAID?
6. Is the company willing to engage with USAID in a transparent manner without expecting an exclusive relationship (i.e., barring competitors)?
7. Is the company willing to accept limitations on the publicity (i.e., press and media coverage) of the alliance so as to ensure that USAID is not perceived to be endorsing the company or its products and services?

B. Social responsibility

1. Is the company primarily involved in the manufacture or sale of firearms or narcotics, i.e., involvement in these activities constitutes a significant share of company’s total portfolio?
2. Does the company have a good reputation (no serious red flag issue areas), especially in areas of corporate social responsibility (CSR)? In the case of new companies or companies with past CSR troubles, are they committed to instituting/improving a sound CSR policy?
3. Does the company have policies barring harmful child labor or forced labor?
4. Does the company have a non-discrimination policy governing the hiring and promotion of minorities, women?
5. Is the company accepting of unions or attempts to organize a union?
6. Does the company have a health and safety action plan for workers, including the handling of hazardous materials and the prevention of environmental accidents?
7. Does the company have a policy for codes of conduct, labor standards?

## Tools for Alliance Builders

## C. Environmental accountability

1. Does the company collect and evaluate adequate and timely information regarding the environmental, health, and safety impacts of their activities?
2. Does the company set targets for improved environmental performance, and regularly monitor progress toward environmental, health, and safety targets?
3. Does the company assess, and address in decision-making, the foreseeable environmental, health, and safety-related impacts associated with the processes, goods and services of the enterprise over their full life cycle? Does the company provide the public and employees with adequate and timely information on the potential environment, health and safety impacts of the activities of the enterprise?
4. Does the company maintain contingency plans for preventing, mitigating, and controlling serious environmental and health damage from their operations, including accidents and emergencies; and mechanisms for immediate reporting to the competent authorities?
5. Does the company continually seek to improve corporate environmental performance, by encouraging, where appropriate, the adoption of technologies and operating procedures in all parts of the enterprise that reflect environmental best practices? Are its products or services designed to have no undue environmental impacts, be safe in their intended use, and be efficient in their consumption of energy and natural resources? Can they be reused, recycled, or disposed of safely?
6. Does the company have a green audit for environmental performance?
7. Is the company ISO certified?
8. Does the company have a natural habitats policy? A forestry issues policy?
9. Is the company free from regulatory lawsuits?

## D. Financial soundness

1. Is the company a publicly traded company?
2. Does the company publish an annual report?
3. Does the company have audited financial statements?
4. Has the company been in business for several years?

**Due Diligence Guide for Non-Profit Organizations**

Depending on the situation and potential partners, some of the questions pertaining to private enterprise may also apply to other partners, while other questions will not be so appropriate. Just as you would for other activities, when contemplating forming an alliance exercise common sense, good judgment, and follow established procedures and guidelines to avoid situations that may result in embarrassment to the Agency or ineffective development investments.

USAID has a long history of working with non-profit partners, and has well established due diligence procedures. The Office of Private and Voluntary Cooperation's Registration Policy sets out the basic areas for you to explore. However, as with private companies and depending on the alliance and USAID's history of working with the particular non-profit, you may need to undertake a more comprehensive due diligence investigation to enable the Agency to make the right decision on whether to partner with that organization.